

City of Sunnyvale

Sunnyvale, California

Recommendations to Management

For the year ended June 30, 2005

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Recommendations to Management
For the year ended June 30, 2005

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October 27, 2005

To the Honorable Mayor and Members of City Council
of the City of Sunnyvale
Sunnyvale, California

In planning and performing our audit of the basic financial statements of the City of Sunnyvale (City) for the year ended June 30, 2005, we considered the City's internal control to plan our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control.

However, during our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 27, 2005, on the financial statements of the City. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with management, are intended to improve internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We would like to express our appreciation to the City's staff for their cooperation, assistance, and support during this year's audit process.

This report is intended solely for the information and use of the City Council, management and others within the City.

A handwritten signature in cursive script that reads 'Caporicci & Larson'.

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FRAUD POLICIES AND PROCEDURES

Observation:

The City does not have a formal written policy on Management Fraud Prevention Program. According to the AICPA's SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*, it is important that management establish policies and procedures, and put them into action, in order to deter and prevent fraud.

Recommendation:

We recommend that the City adopt and implement formal written fraud policies and procedures to ensure the City personnel are aware of fraud risk areas.

City Response:

The City staff recognizes the importance of a formal fraud prevention policy. As staff resources permit, we will begin development of this policy during FY 2005/2006.

NEW PRONOUNCEMENTS

Observation:

The Governmental Accounting Standards Board (GASB) had issued GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions* which the City has to implement in fiscal years ending June 30, 2008 and 2009 respectively. These statements will require the disclosure of the liability related to Other Post Employment Benefits (OPEB).

GASB's financial reporting and accounting requirements allows the unfunded liabilities to not be recorded, but to be amortized up to thirty years for OPEB plans. Although these unfunded liabilities are not recorded and not presented on the face of the financial statements, these amounts are disclosed in the Notes to the Financial Statements and in Required Supplementary Information as required by GASB. In addition, these disclosures also present a description about the Plans, actuarial assumptions used in the Plans, contributions actuarially required and made, and a three year funding progress (or lack of progress) in the Plans.

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Recommendations to Management, Continued
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NEW PRONOUNCEMENTS, Continued

Recommendation:

We recommend that the City prepare for the implementation of these statements by obtaining an actuarial study to determine the City's liability. In addition, the City should decide, by Council action, whether the liability will be funded or if the City will continue to utilize the pay-as-you-go method for these expenditures.

City Response:

The Finance staff has been following the development of GASB Statement No. 45 since its inception and is fully aware of the requirements of the new statement. Prior to the adoption of GASB Statement No. 45, the City commissioned an actuarial valuation of our retiree health care costs in June 2002 and will be obtaining another this fiscal year.

City of Sunnyvale
Status of Prior Year's Recommendations to Management
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MISCELLANEOUS DEPOSITS

Observation:

The City was not able to provide supporting documentation for 34% for the miscellaneous deposits under \$10,000 and 42% for the miscellaneous deposits over \$10,000.

Recommendation:

The City should have supporting documentation for all miscellaneous deposits.

Status:

Implemented, the City will maintain adequate supporting documentation for future deposits.